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United States Senate

COMMITTEE ON THE BUDGET

WASHINGTON, DC 20510-6100

December 22, 2005

Dear Republican Colleague:

As you prepare to head home for the holiday recess, I want to highlight what the Deficit Reduction Act will mean to our nation, and why Republicans can be particularly proud of this accomplishment.

Yesterday, for the first time in nearly a decade, the Senate passed a measure that begins to address the issue of runaway entitlement spending. Many of us are members of the Baby Boom generation, and we know that when Baby Boomers begin to retire, it will place an enormous financial burden on this country and future generations. Recent estimates put this burden at approximately \$50 *trillion* in unfunded liabilities. Without addressing mandatory spending, our generation's obligations will severely hamper the ability of our children, and our children's children, to live a prosperous life.


The Deficit Reduction Act is a step in the right direction. Some may say that a net savings of \$40 billion is not a significant reduction in our national debt. While I would have liked to have achieved even greater savings, we are beginning to dip our toe in the process of restoring fiscal discipline to the federal government.

While we worked to reduce the rate of growth of spending over the next five years, the Deficit Reduction Act also includes some good government reforms. It gives new flexibility to state governors to improve the operation of Medicaid programs. It expands Medicaid benefits to 1 million more disabled children, offers more home and community-based health programs for the elderly and disabled low-income, and provides \$2 billion in additional Medicaid benefits to nearly 2 million hurricane victims in the Gulf Coast region. Grant aid to low-income college students will be increased by 99 percent, as well as providing more assistance to low- and middle-income borrowers in the student loan program.

Yesterday the Senate seized an opportunity to address out-of-control mandatory spending, reduce the federal deficit, and reform important programs for low-income families, patients and students. I hope we continue similar efforts in the coming year.

If you have any questions regarding the information in this packet, please contact my communications staff at 202-224-6011, or visit the Budget Committee website at <http://budget.senate.gov/republican>.

Sincerely,


Judd Gregg
Chairman



The Deficit Reduction Act: A Victory for the American People

“This bill represents a reduction in the federal deficit of nearly \$40 billion over five years. Yes, there is more to be done, but it is a step in the right direction. ...It is my hope that the Congress will continue the hard work we have done here, by seeking to reduce the rate of growth of government at every opportunity. By focusing on how to make government programs work more effectively and at a lower cost. And by making fiscally responsible decisions about what kind of economic future we want to leave to our children and grandchildren.”

-- Senate Budget Committee Chairman Judd Gregg

AN OVERVIEW:

- **The Senate and House took fiscally responsible steps to reduce the deficit by nearly \$40 billion over five years.**
- **This was a goal agreed upon in the bi-cameral Budget Resolution and the Republican-led Congress followed through on that plan. It is the first time in eight years the Congress has approved a deficit reduction package.**
- **Curbing spending and reducing the deficit will benefit future generations, instead of saddling them with this generation's obligations.**

WHY WAS ACTION NECESSARY?

- **The current deficit situation is unsustainable:**
End-of-the-year budget results from the U.S. Treasury show that the FY 2005 deficit was \$319 billion. While that is down from previous expectations due to a strong increase in individual and corporate tax receipts, it is still too high. The deficit for the first two months of FY 2006 is \$130 billion, which is about 13 percent higher than for the same time a year ago. We are on an unsustainable path that will jeopardize the economic stability of future generations.
- **Spending is the problem:**
We are spending a lot more than we are taking in, despite the fact that our tax receipts are growing stronger. For example, while revenue growth continues to be robust in FY 2006, spending growth has exploded -- up \$31 billion or 8 percent so far in 2006 -- erasing the benefits of revenue growth. If this rate of spending is allowed to continue, it will put a serious strain on our economy down the road. Mandatory spending is the biggest problem; these programs simply grow year after year on automatic pilot with no regular review by Congress. Automatic

spending, excluding interest on the debt, now represents 56 percent of all federal spending. Left unchecked, that will grow to more than 62 percent in 10 years. Accelerating spending in the largest entitlement programs is on the verge of overwhelming our economy's ability to pay for those benefits as the Baby Boom generation begins to retire in 2008.

- **The Deficit Reduction Act is a step in the right direction:**
Under the 2006 Budget Resolution, the federal government is estimated to spend \$13.8 trillion over the next five years. The Congress has passed the Deficit Reduction Act, which will reduce the growth of spending by nearly \$40 billion over that time period, which is less than 0.3 percent of total federal spending. Many argue that is not enough, considering that the last three enacted reconciliation bills in the 1990s included 2-3 times the amount of savings: in constant 2005 dollars, the 1990 bill reduced the growth of mandatory spending by \$100 billion, the 1993 bill reduced growth by \$96 billion, and the 1997 bill reduced growth by \$118 billion, all over a five-year period. More needs to be done to reduce the deficit and control spending, but the Deficit Reduction Act is a step in the right direction.
- **Fiscal discipline needed to keep the U.S. economy strong and growing:**
Despite some serious economic set-backs such as Sept. 11th, a recession, and a significant correction in the stock market, the U.S. economy has managed to stay resilient as the President and Congress have worked to enact sound economic policies and lessen the tax burden on families and businesses. That has created 4.4 million jobs since May 2003 and generated a 14.6 percent increase in tax receipts this past fiscal year. Long-term interest rates are relatively low and homeownership is at an all-time high. However, economic growth will not be able to sustain the current rate of spending. Fiscal discipline is necessary to keep the economy growing.
- **Future generations depend on Congress taking action:**
We all want today's economic benefits to continue for future generations. But to make that happen, we need to continue to control spending and reduce the deficit, while allowing Americans to keep and invest more of what they earn so that the economy can continue to expand and grow.

WHAT'S IN THE DEFICIT REDUCTION ACT?

The Deficit Reduction Act reduces the deficit by nearly \$40 billion over five years :

- Agriculture Provisions: \$2.709 billion is saved over five years
- Housing and Deposit Insurance Provisions: \$520 million is saved over five year
- Digital TV Transition and Public Safety Provisions: \$7.383 billion is saved over five years
- Transportation Provisions: \$156 million is saved over five years
- Medicare Provisions: \$6.412 billion is saved over five years

- Medicaid Provisions: \$4.759 billion is saved over five years
- Human Resources Provisions & Continued Dumping and Subsidy Offset: \$1.592 billion is saved over five years
- Education & Pension Benefit Provisions: \$16.286 billion is saved over five years
- LIHEAP Provisions: In a one-time expenditure, provides \$1 billion to assist low-income consumers with higher home heating costs following production disruptions caused by Gulf Coast hurricanes
- Judiciary Provisions: \$553 million is saved over five years

The Deficit Reduction Act contains good government reforms that:

- **Improve the Medicare and Medicaid programs for elderly and low-income patients** – In addition to achieving significant budget savings while reducing wasteful spending, reforms will result in expanded flexibility of state Medicaid benefit packages, \$770 million for expanded home and community-based Medicaid services, \$2 billion in additional Medicaid benefits to Hurricane Katrina victims, and \$1.38 billion for expanded assistance for disabled children.
- **Strengthen education for low-income students** – The bill reduces bank and education lender subsidies and special payments by \$20.2 billion and achieves another \$2.2 billion in administrative savings. It then directs \$9.6 billion back into student benefits and reduces the deficit by \$12.7 billion. Grant aid for low-income students, especially those who study math, science and technology is increased by up to 99%; student loan taxes and fees are reduced; and loan forgiveness is provided to teachers of special education, math and science and to active duty military personnel.
- **Offer relief to low-income families struggling with high home heating costs** – The bill provides a \$1 billion, one-time only supplement to the Low-Income Home Energy Assistance Program (LIHEAP) next year to assist low-income households struggling with high home heating costs they will face as a result of production disruptions caused by the Gulf Coast hurricanes this year.

THE BOTTOM LINE:

- **The current federal deficit is too high, and out-of-control mandatory spending is threatening the economic security of future generations.**
- **The Deficit Reduction Act, while reducing spending and the deficit, also benefits low-income students, patients and families.**
- **Congressional Republicans have worked hard to achieve fiscally responsible savings and reduce the deficit – passing the 2006 Budget Resolution that puts the government on track to halve the deficit by 2009 and approving the Deficit Reduction Act.**
- **To keep the U.S. economy strong and growing, Congress must continue to take steps to reduce the deficit and curb out-of-control mandatory spending.**



The Deficit Reduction Act Will Improve Education for America's Students

"The Senator from Massachusetts says we should give the best and the brightest an opportunity to participate and go to good colleges. We agree with that. And in fact we're doing something about it...There are some major initiatives in this bill, especially in the area of education, which are new. They are fully paid for...And the new programmatic activity, which is fully paid for, in the student area is \$9 billion. \$9 billion of additional funding for student activity."

-- Senate Budget Committee Chairman Judd Gregg, Dec. 20th floor speech

Fact: Not one benefit for low-income students is taken away under the Deficit Reduction Act. Rather, the bill reduces bank and education lender special payments and profits by \$20.2 billion and achieves another \$2.2 billion in administrative savings. It then directs the money back into student benefits (\$9.6 billion) and deficit reduction (\$12.7 billion).

Fact: The Deficit Reduction Act provides more than \$3.7 billion in additional direct grant aid for low-income college students over five years.

- ✓ The bill increases grant aid to low-income students by up to 99 percent.
- ✓ It establishes a new program of Academic Competitiveness Grants that will strengthen U.S. competitiveness and national security. Additional grant aid will be provided to low-income, high-achieving college students: \$750 the first year, \$1,300 the second year.
- ✓ In addition, for low-income, high-achieving college students pursuing degrees in key subject areas of math, science and foreign languages critical to national security: \$4,000 for the third year, \$4,000 for the fourth year.
- ✓ These award levels are in addition to the maximum federal Pell Grant for which a low-income student would otherwise be eligible – currently the maximum Pell Grant award is \$4,050.

Fact: The Deficit Reduction Act provides another \$5.9 billion to benefit both low-income and middle-income borrowers in the student loan program.

- ✓ Reduces "taxes" on students by phasing out loan origination fees – surcharges banks and the Department of Education require students to pay to access government-backed loans.
- ✓ Loan forgiveness up to \$17,500 for special education, math and science teachers who agree to teach in low-income schools.
- ✓ Loan deferment for active duty military personnel.



Medicaid Reform:
The Deficit Reduction Act Will Achieve Savings,
Preserve Services and Protect Beneficiaries

"The Medicaid issue is really at the essence of this effort to reduce debt through this deficit reduction bill... We will spend \$1.2 trillion over the next five years on Medicaid. We're talking about reducing Medicaid spending during that period by \$5 billion...And governors will be given more flexibility to reorganize their Medicaid programs so they can deliver more service to more people."

- Senate Budget Committee Chairman Judd Gregg, Dec. 20th floor statement

Fact: Total Medicaid spending will be \$1.115 trillion over the next five years, growing from \$192 billion in 2006 to \$260 billion in 2010. The Deficit Reduction Act reduces total Medicaid spending by \$4.7 billion over the next five years, or 0.4 percent.

Fact: Without changes, the Medicaid program is projected to grow 41% over the next five years. With the reductions included in the Deficit Reduction Act, the program will still grow 40%.

Fact: The \$4.7 billion in net Medicaid savings result from making reimbursements to pharmacies and drug manufacturers more accurate, clarifying the ways states can use case management programs, and closing a loophole that permits individuals with assets to qualify for long-term care coverage in Medicaid.

Fact: The Deficit Reduction Act will result in increased health benefits for low-income individual and families:

- ✓ \$2 billion in additional Medicaid benefits to 1.9 million Hurricane Katrina victims in Louisiana, Mississippi and Alabama
- ✓ \$1.38 billion to expand Medicaid benefits to parents of severely disabled children (Family Opportunity Act) so that 1 million more disabled children can be covered by Medicaid
- ✓ \$770 million for home and community-based health programs for the elderly and disabled low-income

Fact: The \$4.7 billion in reductions in the growth of Medicaid over five years, when adjusted for inflation, is \$4 billion less than Medicaid cuts passed by the Democrats in the Democrat Reconciliation bill in 1993 and \$3 billion less than Medicaid cuts that President Clinton signed into law as part of the 1997 Reconciliation Bill.